CANADA URBAN INSTITUTE

Canada-Slovak Republic Fiscal Decentralization Seminar

Fifth Narrative Report (October 01-December 31, 1998)

SUMMARY

Introduction

The Canadian Urban Institute (CUI), with funding from the Central and Eastern Europe Branch of CIDA, is managing the Fiscal Decentralization Seminar – Slovak Republic (FDSSR). The goal of this technical cooperation program is to assist local government in Slovakia with the decentralization of fiscal authority by strengthening their capacities in municipal management, revenue generation, and financial management.

This document, the Fifth Narrative Report, provides an analysis of activities and results of the program to date, focusing on the quarter from October 1 to December 31, 1998.

Activities in this Reporting Period

The main activity conducted during this reporting period is:

- ***Completion of the first draft of research for the document: "Lessons From other Places: Models of Local Government from around the World".*** Under the guidance of the CUI, a Canadian researcher is undertaking the North American case studies and two researchers from CEE are undertaking the balance. CUI is in the process of compiling, formatting and editing the document. It will then be translated into Slovak in January 1999. An outline of the document is contained in Appendix B.

Outputs

The main outputs during this quarter attributable to this program are the following:

- There has been ***an increase in communication and cooperation between the national government, local self-government and other stakeholders*** involved in decentralization issues.
- A ***platform for examining and discussing current decentralization efforts and developing action plans was provided/created.***

Outcomes and Impacts

A new taskforce has been established by the new National Government to coordinate fiscal decentralization efforts. The establishment of this group is evidence of the commitment to the issues.

Another indication of an overall outcome of the program is the ***high level of cooperation between the Slovak National Parliament and the various stakeholders participating in the Steering Committee and working groups.*** It is hoped that this cooperation is a building block towards a sustained dialogue between the national and local self-governments, as well as among local self-governments.

Planned Activities

- ***Finalizing the draft and translating into Slovak the document: "Lessons From other Places: Models of Local Government from around the World".*** The document contains 9 different models (5 from Europe, 2 from the USA, 1 from New Zealand and 1 from Canada) describing:
  - (a) how local government is structured and the allocation of responsibilities between levels of government divided.
  - (b) at the local level, how is revenue generated, intergovernmental transfers made, expenditures managed, debt controlled, inter-regional equalization ensured and

fiscal management set out at the national and local level.

These findings will be summarized concisely with the purpose of highlighting the advantages and disadvantages of different approaches when viewed in the Slovakian context.

- ***Holding of several workshops***, including a National Workshop ***to analyze the research and make recommendations on the applicability of the models to the Slovak context***. A series of two workshops will be held prior to the National Workshop.

Changes to the Workplan

It is now planned that the bulk of the research will be completed in January 1999, several workshops will be held with working group members to analyze the research in February and March and the National Workshop will be held in April 1999. The Working group has asked for more time to deliberate on the issues raised in the new research.

Although the timing of the project falls behind the original goals, the working group and the CUI are confident that the project is on track and this timing is realistic. Originally it had been planned that the National Workshop would be held in late 1998.

Monitoring and Evaluation

The CUI has developed a monitoring and evaluation system to measure and analyze the program's outputs, reach, outcomes and impacts according to indicators identified in the RBM framework of the contribution agreement. It is presented in Appendix C.

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GLOSSARY OF ACRONYMS

CIDA	Canadian International Development Agency
CUI	Canadian Urban Institute
EDI	Economic Development Institute (World Bank)
FDI-CEE	Fiscal Decentralization Initiative -- Central and Eastern Europe
FDSSR	Fiscal Decentralization Seminar – Slovak Republic
LSGAC	Local Self-Government Assistance Center (USAID-funded)
NGO	Non-government organization
OECD	Organisation for Economic Co-operation and Development
RBM	Results-based Management Framework
Union	Union of Towns, Cities and Villages of the Slovak Republic (municipal association)
USAID	The United States Agency for International Development
ZMOS	Association of Towns and Villages (municipal association)

CANADIAN URBAN INSTITUTE
FISCAL DECENTRALIZATION SEMINAR – SLOVAK REPUBLIC

Fifth Narrative Report
For the Period: October 1 to December 31, 1998

1. INTRODUCTION

The Canadian Urban Institute (CUI), with funding from the Central and Eastern Europe Branch of CIDA, is managing the *Fiscal Decentralization Seminar – Slovak Republic (*FDSSR*)*. The goal of this technical cooperation program is to assist local governments in Slovakia with the decentralization of fiscal authority by strengthening their capacities in municipal management, revenue generation, and financial management. Within this framework, the program addresses CIDA's priorities of democracy and good governance.

The CUI is implementing the program in partnership with: a) the Slovak National Parliament through the Committee of the National Parliament for Public Administration, Self-Government and Minorities and b) the Fiscal Decentralization Initiative (FDI), a joint effort of the World Bank's Economic Development Institute (EDI), Council of Europe, Organisation for Economic Co-operation and Development (OECD), United States Agency for International Development (USAID), Danish Ministry of the Interior, German Development Agency, Italian Ministry of Foreign Affairs, CUI and CIDA. Other institutions, associations, NGOs and government agencies are also involved in the program.

As is the case in many former Soviet countries of Central and Eastern Europe, Slovakia, in its challenging transition to democracy and market-based economy, is decentralizing many of its government powers. Fiscal decentralization is an important component of this process. As local governments are being given more responsibility to deliver services, they demand more power to raise revenue, develop the local economy and encourage privatization.

The Slovak National Parliament is undertaking a national consultation process to assess the current state of local governments in Slovakia, set priorities for fiscal decentralization, and create action plans to achieve these priorities. The Fiscal Decentralization Initiative for Central and Eastern Europe (FDI-CEE) is currently assisting Slovakia in this process through the financial support of a national forum, as well as more recently through financial support of additional research and events. The CUI is serving as lead organization in the implementation of this initiative, assisting the Slovak National Parliament in undertaking this national consultation process.

The following group of activities has been set out to achieve this:

(i) ***Creation of a Multi-Stakeholder Committee to Manage the Project.***

(ii) ***Conducting of a Pre-Forum Conference*** to examine the research papers prepared, recommend necessary changes to be made, brainstorm on issues, and set the agenda and priorities for the Forum.

(iii) ***Commissioning of Research*** on the current state of local governments in Slovakia, their financial situation and prospects, the state of relations between Slovak local governments and the national government, the issue of regional government, etc. The research was designed to provide background information and points for discussion during the National Forum.

(iv) ***Conducting of the National Forum*** in February 1998. The research papers commissioned were presented and discussed. Participants then discussed priorities for the national fiscal decentralization agenda.

(v) ***Follow-up working session to the National Forum*** to synthesize some of the National Forum findings and develop consensus on next steps.

(vi) ***Conducting of a Post-Forum Conference*** to measure the progress to date on the implementation of the action plans, and to revisit the priorities and recommendations, to revise if necessary.

In addition, the following set of activities were included through an amendment to CUI's Contribution Agreement with CIDA:

(vii) ***Organizing two working groups of stakeholders*** to examine the issues of (i) structure and responsibilities of the different levels of government and (ii) financing the different levels of government.

(viii) ***Conducting research and reviewing the practical experience*** of nine different approaches (5 from Europe, 2 from the USA, 1 from New Zealand and 1 from Canada) to: structuring local government and to the allocation of responsibilities between levels of government and generating revenue at the local level, making intergovernmental transfers, managing expenditures, controlling debt, inter-regional equalization and fiscal management at the national and local level.

(ix) ***Conducting and documenting the results of several facilitated workshops*** (including a national workshop) to seek to reconcile the differences between stakeholders groups by presenting the practical experience of other jurisdictions to Slovakia. These findings will be put forward as inputs for policy and legislative change to stakeholders and the new National Government.

2. SUMMARY OF ACTIVITIES & ACCOMPLISHMENTS

Activities

- The existing ***Intergovernmental Committee has been expanded to increase its scope and served as the multi-stakeholder committee to manage the project***. The CUI is supporting the work of this body in the implementation of the FDSSR program. A new committee, or working group, was formed in April 1998 to coordinate follow-up activities to the National Forum.

- With the assistance of the CUI, ***7 research papers and 6 secondary papers were commissioned*** by the Steering Committee on issues related to fiscal decentralization and allocation of responsibilities between central, regional and local governments. These papers were distributed to invitees prior to the National Forum and presented for discussion at the National Forum on February 24-25, 1998 (abstracts and the English translation of the papers are available from CUI). Summaries of the Papers in English were distributed for foreign guests at the National Forum.

- The CUI assisted in the ***conducting of a Pre-Forum Conference in January 1998*** to ensure that preparations for the National Forum were proceeding according to schedule. The commissioned papers were reviewed, an agenda was set for the Forum, the venue was booked, speakers were confirmed, and arrangements were made for simultaneous interpretation during the conference.

- ***The National Forum:*** Possibilities and Preconditions of Fiscal Decentralisation in the Slovak Republic ***was held February 24 –25, 1998*** just outside of Bratislava. Over 120 individuals from national government, local self-government, municipal associations, academia, the media and foreign observers participated in the Forum. The National Forum agenda is available from CUI.

- The members of the Steering Committee decided to postpone the Workshop on Regional Self-Governance. During the National Forum, participants agreed that instead of holding this workshop, a ***working session would be held in April 1998 to synthesize the findings of the National Forum and develop priorities for action***.

- A ***Steering Committee Meeting was held in March 1998 to prepare for the April 28 follow-up working session.*** The Agenda was developed, the invitation list prepared and logistical arrangements made.

- In April 1998, ***a working session was held to synthesize some of the National Forum findings and develop consensus on next steps with a cross-section of stakeholders participating***. As evidence of the desire on the part of stakeholders to move forward, the participants of the session formed two multi-stakeholder working groups to examine the question (which was broken down into the following issues):
    1. Financing powers of government, and
    2. Structure and responsibility of the different levels of government.

Approximately 20 people participated from the national government, local self-government, municipal associations, foreign organizations and academia participated in the event.

- Representatives of the working groups, together with the CUI, ***developed a proposal to the Fiscal Decentralization Initiative for additional funding to support research and workshops*** related to the follow-up work. The proposal was approved in September 1998. ZMOS is the agency managing the project. CUI also received additional funding from CIDA to support this initiative.

- CUI led a workshop in September 1998 with members of the multi-stakeholder working groups to: ***clarify the objectives of the new research, the role of the working groups and the approach to be used in executing the research and analysis; develop the terms of reference for the researchers; and the time frame for the rest of the project.***

- CUI has ***commissioned several professionals to undertake the research work***. Under the guidance of the CUI, a Canadian researcher is undertaking the North American case studies and two researchers from CEE are undertaking the balance. The members of the working groups decided that outside researchers (i.e., a non-Slovak individuals) would be seen as being more objective. Drafts of the research have been completed. CUI is in the process of compiling, formatting and editing the document. It will then be translated into Slovak in January 1999. An outline of the document is contained in Appendix B.

Outputs

- The Slovak national government and stakeholders, including the Union of Towns, Cities and Villages of the Slovak Republic and the Association of Towns and Villages of Slovakia have ***an effective committee system*** to design, prioritize, develop and implement action plans for fiscal decentralization priorities identified through the FDSSR program.

- ***Communication and cooperation between the national government and local self-government has increased***. This was facilitated by the multi-stakeholder steering committee created for the FDSSR and the opportunities created for dialogue during and after the National Forum.

- Through the commissioning of research papers and secondary papers on the current state of local governments in Slovakia, their financial situation and the progress and prospects for fiscal decentralization, ***Slovak decision makers have a greater body of knowledge to draw upon to formulate laws, policies and action plans.***

- Through the National Forum process, ***stakeholders are provided with a vehicle for examining current decentralization efforts and developing action plans.***

Outcomes and Impacts

Please see part 3 of this document for an analytical assessment of results achieved in the program.

- ***A new taskforce has been established by the new National Government to coordinate fiscal decentralization efforts***. The establishment of this group is evidence of the commitment to the issues. The taskforce is by Viktor Niznansky, an academic, a consultant for MESA 10 and an associate of the Union. He is also a member of the project working group.

- One indication of the overall outcome of the program is ***the high level of cooperation between the Slovak National Government and the various stakeholders participating in the Steering Committee and the working groups***. It is hoped that this cooperation will be a building block towards a sustained dialogue between the national and local self-governments, as well as among local self-governments.

- The passing of a ***controversial act on regional self-government has been postponed.*** The postponement has been credited to the National Forum. Decision-makers decided that more deliberations were needed on the subject before any legislation is considered.

- Since the National Forum, ***papers commissioned and the event itself has stimulated dialogue and debate on the emergent issues arising from the event.***

Planned Activities

- ***Finalizing the draft and translating into Slovak the review of the practical experiences*** of 9 different models (5 from Europe, 2 from the USA, 1 from New Zealand and 1 from Canada) to:
  (a) structuring local government and to the allocation of responsibilities between levels of government.
  (b) generating revenue at the local level, making intergovernmental transfers, managing expenditures, controlling debt, inter-regional equalization and fiscal management at the national and local level.

These findings will be summarized concisely with the purpose of highlighting the advantages and disadvantages of different approaches when viewed in the Slovakian context.

- ***Holding of several workshops***, including a National Workshop ***to analyze the research and make recommendations on the applicability of the models to the Slovak context***. A series of two workshops will be held prior to the National Workshop.

Changes to the Workplan

A delay in the timetable is attributed to the September national elections and the summer holiday period (July and August are the prime vacation months in the Slovak Republic). It is now anticipated that the bulk of the research will be completed in January 1999. Several meetings will be held with working group members in February and March. The National Workshop is tentatively scheduled for April 1999. The Working group has also asked for more time to deliberate on the issues raised in the new research.

Although the timing of the project falls behind the original goals, the working group and the CUI are confident that the project is on track and this timing is realistic. Originally it was hoped that the National Workshop would be held in late 1998.

Please note that analysis on the financial variances of the project is contained in Appendix A.

Cross-Cutting Themes: Integration of Women into Program Activities

There is growing recognition both of the critical roles of women in the development process and of the need to address inequities that exist between genders in this process. Involving women as actors, fully engaged in decision-making, management, planning, implementation and monitoring and evaluation at the local level, can only lead to more equitable, effective and sustainable governance. The aim should be to strengthen governance by making systems more open, accessible and inclusive for women.

The CUI puts special emphasis in ensuring that its activities have a positive effect on women in the partner countries. The CUI is committed to ensuring gender equity in representation and participation in the program. While CUI's in-Canada project manager and field representative are women, there is much work that needs to be done to improve the situation in the FDSSR. CUI's approach is to suggest and show by example, but not dictate. While the CUI will try to encourage more women to participate in the program, some of the reasons for the lower participation of women in the program can also be attributed to the dearth of qualified women in the local self-government and fiscal fields.

Program Monitoring and Evaluation

The CUI has developed a monitoring and evaluation system to evaluate the program's outputs, reach, outcomes and impacts according to indicators identified in the program's RBM framework. This is

contained in Appendix C.

3. Analytical Assessment of Results Achieved to Date

The purpose of this section of the report is to provide additional analysis of the quality and relevance of the research, presentations and discussion that has come about through the National Forum process.

Progress was achieved in facilitating dialogue amongst stakeholders

A major step achieved as a result of the National Forum and the follow-up working sessions was that individuals and groups from within national government, bureaucracy, local governments and interest groups met and had open and friendly dialogue. They mingled socially and it appeared that they built social relationships that will be useful in facilitating constructive discussions in the future.

This was a major breakthrough in that this was the first time that many of the key players had met together and spoke to one another. Much of the dialogue had previously been through media that put a negative spin on issues. Many doubted that this type of meeting and open dialogue was possible. The National Forum provided an environment in which there was frank debate but also a significant amount of goodwill.

In September 1998, a meeting, led by CUI, was held with members of the working groups. The purpose of the meeting was to clarify the objectives of the research, the role of the working groups, the approach to be used in executing the research and analysis as well as to develop the terms of reference for the researchers and the time frame for the rest of the project. The participants of the meeting came from a variety of backgrounds including mayors of small villages and medium-sized urban centres, national government officials, representatives of municipal associations, the director of an economic NGO and representatives from international organizations (the CUI and the USAID-funded Local Self-Government Assistance Center, or LSGAC). The group came to consensus on all the above issues, including that they themselves will analyse the research and come up with a set of recommendations. These recommendations would then be presented at the National Workshop to be held in the Spring 1999. The fact that the group was able to come to consensus and commit to working together, was considered a significant achievement by members of the group itself, and especially the USAID-funded LSGAC.

One significant result was a move to a consultative approach by the Government

A major problem that we have perceived is the absence of consultation around proposals for local

government reforms tabled by the national government. There could a number of reasons for this. One is that bureaucrats generally had little experience and some discomfort with consultations concerning their proposals. The National Forum and the subsequent follow-up workshops demonstrated to them that this could be a constructive process. As a result, a bill to reform local government was put on hold to allow consultation to proceed. This is considered a major step forward. Providing that this consultation occurs in a productive way, the modifications to the initial proposals and the subsequent narrowing of differences will make a major contribution to the quality of the final bills and their implementation.

The lack of understanding about the need for consultation in order to build consensus and knowledge about how to proceed to move from disagreement to consensus on issues is a major deficiency in the bureaucracy. Facilitating learning and skill building around this will be important for the future of government administration.

The National Forum research papers were philosophical, not practical

The papers commissioned for the National Forum collectively provide the reader with an accurate overview of the current and historical situation and the breadth of thinking on the issues surrounding fiscal decentralization in the Slovak Republic. The selection of topics and researchers was quite thorough, and collectively the papers provide a body of knowledge representing both the various views and approaches and, where these points of view originate. The material provides a solid foundation on which subsequent work can build.

The emphasis of the papers however is on principles drawn from political philosophy and from experiences of larger nations at different stages of economic/fiscal development. There is little attention paid to the practical issues, especially when it comes to the financial implications of various models. This is hardly surprising given the relative lack of experience in the day to day responsibility for running a decentralized system.

Next Steps

The following are some of the critical issues that are negatively impacting the development of effective governance systems in the Slovak Republic:

There is little experience with stakeholder involvement and consensus building processes in decision-making. There is a need to introduce and to train government employees and politicians in participatory and consensus building processes. This is most effective through training and action learning techniques (i.e., training through application).

There is little exposure to the implications (social, economic, political, environmental) of various models of government reform. Rather, there seems to be a reliance on quotes from political philosophers and sociologists. There is a need for stakeholders to be brought up-to-date on the practical lessons that have been developed around the world on the operational advantages of different local government and inter-governmental arrangements. In particular, lessons should be sought from countries that are similar in scale and which face similar challenges as Slovakia with respect to infrastructure building, developing the economy and maintaining social unity.

There is not a common understanding of the transition process. Much of the discussion and disagreement about how to proceed with local government reorganization stems from the lack of a shared understanding of what are the priorities for action and how these will challenge government structures. For example, there is an urgent need for the country, regions and towns to foster economic activity. Foreign investment is one way to foster economic activity. Foreign investors most often use the level of infrastructure as a key indicator to determine the suitability of a location to invest. In Slovakia, there appears to be little recognition of the relationships between economic development, investment, infrastructure and winning the confidence of international lending agencies. We recommend that these problems be addressed across the country on a town by town basis through projects. These projects should confront stakeholders with the need to cooperate to attract a variety of foreign companies and agencies to invest in specific situations.

A need for public sector financial planning. A better understanding is needed of the most critical aspect -- the relationship between raising revenues through taxes and charges. In particular, how revenue is allocated amongst levels of government through transfer mechanisms. The important issue of public financial planning through priority setting, project evaluation, effective budgeting, investment planning, budgetary control, loan security and loan repayment needs to be addressed. In this way, borrowing may be seen as a means to an end, not an end in itself.

Conclusion

The establishment of the working groups to address the issues of the allocation of competencies and financial responsibilities between levels of government provides an opportunity for key stakeholders to continue to meet (and through group work), depersonalize the debate and develop constructive solutions.

Educating mature players in the political and administrative process so that new organizational cultures can be built is a lengthy process. We recommend bringing stakeholders together to address real problems with a requirement that they work together over a long period under the guidance of outsiders.

We believe that CIDA, through the CUI project, has contributed to setting the "ball rolling" on government reform in the area of fiscal decentralization. Now it is important that this momentum be maintained.

APPENDIX B:

TABLE OF CONTENTS: *"LESSONS FROM OTHER PLACES: MODELS OF LOCAL GOVERNMENT FROM AROUND THE WORLD"*

"LESSONS FROM OTHER PLACES: MODELS OF LOCAL GOVERNMENT FROM AROUND THE WORLD"

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APPENDIX C:
MONITORING AND EVALUATION

The program will continue to implement its performance monitoring and evaluation strategy to ensure that it is meeting or exceeding contracted obligations.

Principles: The following are the principles that will guide performance monitoring and evaluation:

- The program's performance will be tracked and presented to CIDA on a quarterly basis using the Agency's results-based management framework.
- The CUI and its partners will be responsible for measuring the performance in a verifiable manner.
- The framework for measuring performance will include the following indicators:
  - the program's guiding objectives.
  - project workplans.
  - key components of the CUI's program management systems, including activities related to: * maintaining a local multi-stakeholder project steering committee.
    - * collaborating and coordinating with stakeholders in project implementation (international and local organizations).
    - * integrating women into project activities.
    - * leveraging of CIDA funding.
- Both quantitative and qualitative aspects of the program's performance will be tracked:
  - Quantitative aspects -- this includes the measurable outputs of project activities, such as the number of people/municipalities involved, workshops conducted, documentation produced, the amount of activity (workload) carried out, etc.
  - Qualitative aspects -- these can include process measures (e.g., the ability of the process to produce outputs that match local needs, the level of satisfaction of those involved in the process) and impact measures (e.g., the extent to which the activity created the desired impact or outcome, as well as the degree to which there was change in the social, economic or environmental well-being of the program stakeholders, the level of acceptance of the ideas raised during the National Forum process, the visibility given to the research papers presented at the Forum, level of communication/coordination amongst stakeholder groups, etc.).

Mechanisms: The following mechanisms will be utilized to measure performance:

- Terms of reference and workplans will be prepared and regularly up-dated for each activity set.
- Group & individual evaluation sessions will be conducted once during the life of the program with program participants.
- A series of participant surveys will be distributed to:
  - Slovak professionals who: (1) participate in a workshop and (2) participate in a Steering Committee.
  - Foreign individuals working for other international development agencies.
- Interim reports will be submitted to CIDA on a quarterly basis. They will overview completed

and planned activities, accomplishments, impacts and variances in a results-based framework.